

Message Text

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INFO OCT-01 EA-07 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

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FM SECSTATE WASHDC

TO AMEMBASSY SEOUL

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E.O. 11652: N/A

TAGS: ETRD, KS

SUBJECT: PRIOR IMPORT DEPOSITS: IMPACT OF AUTOMATIC
RETENTION PERIOD ON IMPORTS FROM U.S.

REF (A) SEOUL 6069 (B) A-45 OF 3-4-75 (C) STATE 103935
D) SEOUL 3227

1. A RECENT EMBASSY REPORT (REFTEL A) LISTS CHANGES IN
PRIORIMPORT DEPOSIT REQUIREMENTS, INCLUDING THE PHASED
ELIMINATIONOF THE AUTOMATIC RETENTION PERIOD.

2. REVIEWING THE HISTORY OF THE U.S.-KOREA COMMERCE
MINISTERIALS WE CAN SEE THAT AT LEAST AS FAR BACK AS THE
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THIRDMINISTERIAL MEETING THE U.S. POSITION HAS BEEN THAT

THE FIRST PRIORITY CONCERNING PRIOR IMPORT DEPOSITS WAS TO ELIMINATE DISCRIMINATION AGAINST DISTANT SUPPLIERS. THIS SUBJECT HAS BEEN AN ISSUE AT EACH MINISTERIAL MEETING FROM THE THIRD THROUGH THE SIXTH AFTER WHICH THE AUTOMATIC RETENTION PERIOD WAS ADOPTED.

3. EARLIER REPORTS AND INDIRECT DIALOGUE, PARTICULARLY IN REFTELS B, C AND D, INDICATE THAT THE EMBASSY HAD SUPPORTED THE VIEW THAT THE 90-DAY RETENTION PERIOD HELPED

DISTANT SUPPLIERS SUCH AS THE U.S. THE THEORY WAS THAT IMPORTERS BUYING FROM CLOSE SUPPLIERS SUCH AS JAPAN WOULD HAVE DEPOSITS TIED UP FOR ABOUT THE SAME TIME AS BUYERS IMPORTING FROM DISTANT SUPPLIERS. FACING A LIMITED SUPPLY AND HIGH COST, WHETHER FROM COMMERCIAL BANKS OR THE PRIVATE MONEY MARKET, OF OPERATING FUNDS, AND HIGH IMPORT DEPOSITS COLLECTED WHEN LETTERS OF CREDIT WERE OPENED BUT RETURNED, IN THE ABSENCE OF AN AUTOMATIC RETENTION PERIOD, AT SETTLEMENT A KOREAN IMPORTER WOULD HAVE A COST ADVANTAGE, CETERIS PARIBUS, IN PURCHASING FROM A CLOSE SUPPLIER. WITH THE 90-DAY RETENTION PERIOD, OCEAN SHIPMENT TIME NO LONGER HAD A DISCRIMINATORY PRICE EFFECT BY ADDING TO THE INTEREST - CARRYING CHARGES BORNE BY THE IMPORTER, AND THE IMPORT DEPOSIT SYSTEM PROPERLY INFLUENCED DECISIONS WHETHER TO IMPORT, BUT NOT DECISIONS ABOUT FROM WHERE TO IMPORT.

4. AT THE MAY GATT BALANCE OF PAYMENTS CONSULTATION WITH KOREA THE U.S. POSITION WAS THAT KOREA SHOULD MAKE GENERAL REDUCTIONS IN THE REQUIRED LEVELS OF PRIOR DEPOSITS. THIS ACTION WOULD REDUCE COSTS TO THE KOREAN ECONOMY AND AT THE SAME TIME NOT DISCRIMINATE AGAINST DISTANT SUPPLIERS.

5. IN LIGHT OF THESE CONSIDERATIONS AND THE FACT THAT THE INCREASED INTEREST RATES WILL MAGNIFY CLOSE SUPPLIER ADVANTAGE ONCE THERE IS NO AUTOMATIC RETENTION PERIOD, PLEASE EXPAND ON THE CLOSING STATEMENT IN REFTEL A THAT THE STAGED ELIMINATION OF THE AUTOMATIC 90-DAY RETENTION PERIOD IS "CLEARLY A STEP IN THE RIGHT DIRECTION." IF OUR POSITION IS TO CHANGE ON THE DESIRABILITY OF AN LIMITED OFFICIAL USE

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AUTOMATIC RETENTION PERIOD, IT MUST BE ON THE BASIS OF EITHER STRUCTURAL CHANGES OR A MORE DETAILED UNDERSTANDING OF THE REAL PRESENT RELATIONSHIP BETWEEN IMPORT DEPOSITS AND BUYER DECISIONS. WE ARE INTERESTED, PARTICULARLY, IN THE IMPACT ON FORMAL TRADE REGULATIONS OF PLOYS SUCH AS THE ONE MENTIONED IN PARAGRAPH 1B OF REFTEL D: TO WHAT EXTENT DO BUSINESS PRACTICES "NEUTRALIZE" FORMAL TRADE REGULATIONS? IN BRIEF, WHAT IS NEEDED CURRENTLY IS

AN EARLY, DETAILED EMBASSY ANALYSIS AND REPORT OF THE ACTUAL IMPACT ON U.S. TRADE OF BOTH THE PAST AND THE PROPOSED PRIOR IMPORT DEPOSIT SYSTEM.

IF THE CURRENT STAGED ELIMINATION OF THE RETENTION PERIOD WILL ACCRUE MORE TO THE BENEFIT OF CLOSE SUPPLIERS, DISSATISFACTION WITH THIS POLICY SHOULD BE MADE KNOWN TO THE ROKG, AND REFERENCE SHOULD BE MADE TO THE U.S. POSITION AT PREVIOUS COMMERCE MINISTERIALS AND AT THE MAY GATT CONSULTATIONS.

7. SEOUL A-126 RECEIVED SEPTEMBER 13 AND POSITION NOTED. PLEASE RESPOND, HOWEVER, TO OTHER ELEMENTS OF THIS CABLE. ROBINSON

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